

FOR IMMEDIATE RELEASE: February 26, 2010

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Study shows need for changes to federal oil and gas bonding program Taxpayers bail out defaulted oil and gas wells

Billings, Mont. – A new report released today by the Government Accountability Office (GAO) found that oil and gas bonds were insufficient to pay for reclamation, but were based on minimum regulatory amounts.

GAO also found that if minimum amounts had been adjusted for inflation, bonds would be 6-7 times higher than they are today.

According to GAO, the Bureau of Land Management (BLM) spent about \$3.8 million since 1988 to reclaim 295 orphaned wells (orphaned wells are inactive wells with insufficient bond amounts and no responsible party to plug the well and restore the location). BLM estimates the cost of reclaiming another 102 of 144 identified orphaned wells at \$1.7 million.

“BLM should fix its bonding program so taxpayers and landowners won’t have to bail out oil companies that default and can’t clean up their own messes,” said Donald Nelson, a farmer/rancher from Keene, N.D., speaking for the Dakota Resource Council (DRC) and Western Organization of Resource Councils (WORC).

Nelson noted that the federal government requires hard rock and coal mining companies to post bonds based on clean-up costs. “It’s unfair that oil and gas companies, in a very profitable industry, have much lower bonds,” he said.

Nelson’s ranch is a mixture of private and public surface and private and federal oil and gas holdings. “We’ve had oil and gas development on our place since exploration and drilling began in North Dakota during the 1950’s,” he said. “Now, we’re dealing with unreclaimed and abandoned wells and pipelines.”

Nelson said the 2005 termination of bonds for two Titan Oil Company wells in McKenzie County is another example of the failure of the bond program. The total costs of plugging and reclaiming the wells amounted to \$62,690, double the posted amount of \$30,000 for the two wells. “Clearly, the current system isn’t working,” Nelson said.

GAO looked at the cost of reclaiming orphaned wells, and found an average of \$12,788 per well. The cost per project ranged from \$582,829 for a well in Wyoming to \$300 for another three wells in the state. According to the report, the variation is due to difference in the amount of disturbance and effort needed to reclaim the wells.

Minimum bond amounts for oil and gas projects were set in the 1950s and 1960s and have not increased since. Although the agency has the authority to require larger bonds, bonds are based on minimum amounts, not full reclamation costs. BLM allows oil and gas companies to post bonds of at least \$10,000 per lease, no matter how many wells will be drilled on a lease, or operators can post a \$25,000 blanket bond for all wells on all federal leases in a state, or a \$150,000 blanket bond for all wells on all leases nationwide.

Statewide and nationwide blanket bonds represent 76% of 3,879 oil and gas bonds currently administered by BLM.

Most oil and gas producing states require higher bond amounts than the BLM minimum. The State of North Dakota increased its single well bond to a minimum of \$20,000 in 2005.

“That was a start, but it’s not enough to protect taxpayers and landowners,” Nelson said.

The GAO study follows a series of reports, including an earlier GAO report, pointing out the inadequacy of BLM oil and gas regulations. A 2005 report by WORC, *Filling the Gaps – How to Improve Oil and Gas Reclamation and Reduce Taxpayer Liability*, recommended improvements to the BLM’s bonding program, citing a potential multi-billion dollar taxpayer liability for clean-up of oil and gas sites throughout the West. That same year, a GAO report concluded that BLM’s focus on issuing oil and gas drilling permits had led the agency to neglect its responsibility to protect the land and other resources through effective inspection and enforcement.

In 2006, WORC, DRC, and other groups submitted a rulemaking petition to the BLM that would require the oil and gas industry to reclaim land damaged by drilling and to provide financial assurance bonds to protect taxpayers and landowners from having to pay for restoration costs. The agency took no action on the petition.

The GAO report released today, *Oil and Gas Bonds – Bonding Requirements and BLM Expenditures to Reclaim Orphaned Wells*, is available at <http://www.gao.gov/new.items/d10245.pdf>. *Filling the Gaps* is available at <http://www.worc.org/Filling-the-Gaps/>, and information on WORC’s rulemaking petition is accessible at <http://www.worc.org/Oil-and-GasPetition>.

DRC was formed in 1978 to protect North Dakota's land, air, water, rural communities and agricultural economy.

Based in Billings, Mont., WORC is a network of grassroots organizations representing farmers, ranchers, landowners, and consumers in Colorado, Idaho, Montana, North Dakota, Oregon, South Dakota, and Wyoming.

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